**Franchise Tax Board**

# SUMMARY ANALYSIS OF AMENDED BILL

| | | | | | |
|---|---|---|---|---|---|
| Author: | Nava | Analyst: | Nicole Kwon | Bill Number: | AB 2735 |
| Related Bills: | See Prior Analysis | Telephone: | 845-7800 | Amended Date: | August 28, 2006 |
| | | Attorney: | Patrick Kusiak | Sponsor: | |

**SUBJECT:** Disaster Loss Deduction/Excess Loss Carryover/Specified Counties/December 2005, January 2006, March 2006, Or April 2006 Rainstorms, Related Flooding & Slides & Any Other Related Casualties/July 2006 San Bernardino County Wildfires

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ____________________.

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended ____________________.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ____________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED August 23, 2006, STILL APPLIES.

____ OTHER – See comments below.

## SUMMARY

This bill would allow taxpayers special tax treatment, called disaster loss treatment, for losses sustained as a result of the wildfires, severe rainstorms, and related events that occurred in the specified counties.

This analysis will not address the bill's changes to the Property Tax Law as they do not impact the department or state income tax revenue.

## SUMMARY OF AMENDMENTS

The August 28, 2006, amendments added the Counties of Lake, Madera, Monterey, and Napa to the list of counties eligible to receive disaster loss treatment as a result of the severe rainstorms and related events. Lake and Napa Counties are included in AB 1798 (Berg) for the period of December 2005 and January 2006. The August 28, 2006, amendments also added San Bernardino County to the list of counties eligible to receive disaster loss treatment as a result of the wildfires that occurred in July 2006.

As a result of these amendments, a new revenue estimate is included below.

| Board Position: | | | Legislative Director | Date |
|---|---|---|---|---|
| ____ S | ____ NA | ____ NP | | |
| ____ SA | ____ O | ____ NAR | Brian Putler | 8/31/06 |
| ____ N | ____ OUA | __X__ PENDING | | |

**POSITION**

Pending.

**ECONOMIC IMPACT**

Revenue Estimate

Based on data and assumptions discussed below, this provision would result in the following revenue losses.

| Estimated Revenue Impact of AB 2735<br>Effective for Tax Years BOA 1/1/2005<br>Assumed Immediate Enactment Date | | |
|---|---|---|
| ($ in Millions) | | |
| 2006/07 | 2007/08 | 2008/09 |
| -$0.5 | -$1 | -$0.7 |

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The revenue impact of this bill is dependent on the dollar value of real and personal property losses. The loss for tax purposes is calculated as the lesser of the reduction in fair market value or the adjusted basis. This value is reduced by insurance reimbursements, $100 per incident, and 10% of adjusted gross income (AGI).

According to the Federal Emergency Management Agency, private, public, and commercial damages are estimated to exceed $500 million statewide for the December 2005, January 2006, March 2006, and April 2006 rainstorms. This estimate assumes that total losses for all counties approximate $440 million. Additionally, Yucca Valley officials estimate total losses generated by the San Bernardino County fires to approximate $7 million. Therefore, losses for this bill are estimated to total $447 million. This estimate assumes that real and personal property damages account for 70% or $313 million.

It is estimated that 10%, or $31 million, of losses are uninsured and 90%, or $282 million, are insured. Because some insurance policies cover a fixed amount of damages rather than the fair market value, it is estimated that only 70% of damages would be reimbursed by an insurance policy. These adjustments result in combined uninsured real and personal property losses of $116 million [$31 million + ($282 million x 30%)]. These uninsured losses are reduced by $3.5 million to account for basis and AGI limitations, resulting in $112 million in possible deductions.

It is estimated that 50%, or $56 million in deductions, will be used during the year of the disaster and 5%, or $6 million in deductions, will never be reported and therefore will not impact this bill. Assuming an average marginal tax rate of 6% on the remaining $50 million ($112 million - $56 million - $6 million), the revenue loss from the storms and wildfires would be approximately $3 million ($50 million x 6%). If total losses were reported over a five-year period, the revenue impact for fiscal year 2006/2007 would total $0.5 million.

**LEGISLATIVE STAFF CONTACT**

| | |
|---|---|
| Nicole Kwon | Brian Putler |
| Franchise Tax Board | Franchise Tax Board |
| 845-7800 | 845-6333 |
| haeyoung.kwon@ftb.ca.gov | brian.putler@ftb.ca.gov |